



DEFENSE FINANCE AND ACCOUNTING SERVICE

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AUG - 2 2000

MEMORANDUM FOR DIRECTORS, DEFENSE FINANCE AND ACCOUNTING SERVICE CENTERS

SUBJECT: Journal Voucher Guidance

The attached procedures provide guidance on the use of journal vouchers within the DoD. Proper preparation of journal vouchers is important to ensure that documentation for a detailed audit trail exists and that journal vouchers are accurately recorded as financial events. These procedures apply to all DFAS Centers and Operating Locations.

After completing an analysis of the number of journal vouchers processed from October 1, 1999, through June 30, 2000, we decided that these procedures would be retroactive to the beginning of FY 2000 for all journal vouchers equal to or exceeding \$100 million. All Centers and Operating Locations should review all journal vouchers from the beginning of FY 2000 that exceed this threshold and ensure that the journal vouchers comply with the revised procedures. As time and resources warrant, we hope you will complete a similar review of journal vouchers less than \$100 million.

We have discussed these procedures with staff of the Directorate for Accounting Policy, Office of the Deputy Chief Financial Officer (ODCFO(AP)), and we expect the ODCFO(AP) will incorporate the procedures into the DoD Financial Management Regulation.

The point of contact is Ms. Barbara Hill at DSN 327-5119 or (703) 607-5119.

/ S /

Edward A. Harris
Director for Accounting

Attachment:
As stated

cc: ODCFO(AP)
DoDIG

JOURNAL VOUCHER GUIDANCE

This document provides guidance on the use and preparation of journal vouchers throughout the Department of Defense. Proper preparation of journal vouchers is important to ensure that documentation for a detailed audit trail exists and that the journal voucher is accurately recorded as a financial event. This section discusses the types of journal vouchers, when and how to use each type, the appropriate support that should accompany each journal voucher, and the approval necessary to ensure the proper entry of journal vouchers.

Operational internal controls must be in place to ensure the proper recording of journal vouchers. These controls must be in place whether journal vouchers are prepared manually or generated by an automated system. Journal vouchers may be prepared at the installation or departmental level. All journal vouchers must be:

1. sequentially numbered by entity and reflected in a journal voucher log to maintain the integrity of journal voucher entries;
2. identified by the 10 specific categories listed below;
3. reviewed to ensure proper recording of entries to posting accounts, not summary accounts, so as to facilitate analysis and footnote disclosure or FACTS reporting during the financial statement preparation process;
4. adequately documented to support the validity and the amount of the journal voucher transaction;
5. authorized and approved by the appropriate authority: the proper level of management, and/or the appropriate Director or designee;
6. segregated when processed as to preparation, documentation, submission, approval, and entry;
7. annotated with the name, title, and office symbol of both the preparer and the approver;
8. maintained in a central location or electronically; and
9. retained for 6 years.

The supporting documentation referred to above must be sufficient for the approving official to clearly understand the reason for preparing the journal voucher. This level of documentation differs somewhat from the level of documentation that must be gathered for auditors and other outside reviewers. In order to satisfy the requirements of outside parties, the supporting documentation, whenever possible, should be attached to a copy of the journal voucher. If this is not practical, specific and detailed instructions regarding the content and location of the supporting documentation must be attached to the journal voucher. In all cases, a clear and concise explanation as to the purpose and nature of the journal voucher should be included with the journal voucher. This level of supporting documentation may not be completely available when the journal voucher is submitted for approval to the approving official; however, all supporting documentation must be identified and made available no more than 5 workdays following the approval of the journal voucher.

The DoD uses two primary types of journal vouchers, correcting and source-entry. Correcting accounting entries adjust for errors identified during the review process. This type of accounting entry includes specific amounts, accounts, and/or transactions related to the required correction. In some cases, correcting entries are required to adjust for errors on previously prepared journal vouchers. In this instance, correcting entries should both reverse the effect of incorrect entries and record the correct amount. In some cases, both entries can be made with one journal voucher and a single set of supporting documentation. Regardless of whether a single journal voucher is prepared, or multiple journal vouchers are prepared, the correcting journal voucher should include a copy of the original journal voucher, documentation supporting the correct amount and narrative explaining how it is known that the original entry is incorrect.

Source-entry journal vouchers are those accounting entries that, due to system limitations or timing differences, have not been otherwise recorded. By nature, source-entry journal vouchers are usually summarized at the entity level by general ledger account. Although finite transaction detail may not be available, the source entry accounting transaction must be supported by documentation for the summarized amounts and an indication of where the transaction-level supporting detail is available.

Source-entry accounting transactions are generally used for month-end closing and year-end processing and closing purposes. Source-entry accounting transactions may also include postings of information provided through data calls, such as those required to record values for property, plant, and equipment recognition.

Both correcting and source-entry accounting entries will normally be summarized (net) amounts for which documentation is required. For various reasons, records of finite detail transactions may not be available. In these situations, the summarized accounting entry represents the amount to record the effect of the detailed transactions. In all such cases, however, the summarized accounting entry shall include documentation of the effect of the detailed transactions and an indication of where the transaction-level supporting detail is available.

Proper documentation, in either hard copy or electronic file, is necessary to support all journal voucher entries. Sufficient documentation is listed below for the following categories of correcting journal vouchers.

1. Identified errors and reasonableness checks. When the duly authorized official¹ has identified errors through analysis, reasonableness checks, or quality control procedures, a correcting journal voucher must be prepared.

¹ The duly authorized official is the person authorized by delegated power who has determined that a source entry or correcting entry is required and what appropriate supporting documentation is necessary to support a journal voucher. In the event an auditor identified an apparent error or omission and provided the documentation for the journal voucher, the duly authorized official always will be a management official.

Evidence to support this type of journal voucher may include a detailed listing of identified errors, narrative explaining how it is known that the original entry is incorrect, a related analysis documenting the calculation of the correct amount, and the sources of the data that were used in the analysis.

2. Reconciliation of trial balance and budget execution reports. When the duly authorized official has determined during a reconciliation of data between two or more sources that a discrepancy exists, a correcting journal voucher may be necessary. Journal voucher entries included in this category often are made to match trial balances or other source data reported by operating locations and/or accounting stations to the DoD Components' budget execution reports. In general, trial balances or other source data should be considered to be correct and only should be adjusted to budget execution data, or other data, in instances where budget execution data are determined to be more accurate. This policy is consistent with the DoD Financial Management Regulation (DoD FMR). Evidence to support this type of journal voucher includes source data and the related analysis used to determine which is the correct amount. If a journal voucher is necessary, the voucher must document why a discrepancy exists in the data; the reason the budget execution data or other data are considered to be more accurate, and the evidence to support this reason; and how the authoritative source determined the entries on the journal voucher are correct.
3. Balancing entries for eliminations. When the duly authorized official has determined that, during the financial statement preparation process, entries are necessary to balance buyer-side data with data provided by the sellers, consistent with the policy in the DoD FMR, Volume 6B, Chapter 13, a correcting journal voucher must be prepared prior to eliminating selected intragovernmental accounts. The supporting documentation for these journal vouchers must include a narrative that summarizes the procedures that were used to make buyer-side adjustments. The documentation must also include the appropriate worksheets and spreadsheets that show, in detail, the seller-side data that are received, the buyer-side control values that are being adjusted, and the calculation of the adjustment amount. For example, the narrative should include, at a minimum, the following paragraphs.

Eliminations are necessary so as not to overstate or understate the performance or financial position of a reporting entity by including the effects of intra-entity transactions within a reporting entity. As stated in the notes to the financial statements and the DoD FMR, Volume 6B, Chapter 13, the DoD used summary seller-side balances for revenue, accounts receivable, and unearned revenue to adjust the departmental buyer-side records for costs, accounts payable, and advances, respectively. A failure to balance the buyer- and seller-side

data prior to processing eliminations by Treasury will result in significant distortions in the consolidated financial statements of the U.S. government. Balancing entries for eliminating entries also shall include amounts to ensure that the corresponding transfer-in and transfer-out accounts are equal for trading partners.

The procedures to use information provided by the seller/service provider for fiscal year XXXX reporting were developed due to systems limitations that prevent the identification of buyer-side transactions by specific trading partner.

All supporting documentation, including the detailed information from the seller that was used to adjust the buyer-side records and the resulting accounting entries, is attached.

(Note: The preceding narrative is an example of the type language that should be included for this journal voucher category. Any changes to the DoD FMR that affect the policy regarding intragovernmental eliminations should be incorporated into the journal voucher explanation.)

4. Supply management inventory. When the duly authorized official has determined that inventory values for supply management activities need to be adjusted from standard price to approximate historical cost, a correcting journal voucher must be prepared. The supporting documentation must include appropriate references to Volume 11B of the DoD FMR and a clear explanation of the method that was used to comply with the policy in the DoD FMR to value inventory and cost of goods sold.
5. Reclassification of accounts. When the duly authorized official has determined that the accounting systems are unable to provide data at the required level of detail for financial statement and footnote presentation and that entries are necessary to crosswalk data from installation level accounts to the U.S. Standard General Ledger, a correcting journal voucher must be prepared. The supporting documentation must include a narrative that explains the reason the reclassification is necessary and the reason the data systems are unable to provide the data at the required level of detail.
6. Audit-recommended journal vouchers. When the duly authorized official has determined that audit-recommended adjustments are required, a correcting journal voucher must be prepared. The auditors should be asked to provide copies of the appropriate workpapers or relevant information from the workpapers to support the recommended journal voucher adjustment. The proper authoritative source shall perform an analysis using the workpapers and other relevant information to determine if he or she agrees with the recommended adjustments.

Evidence to support this type of correcting journal voucher includes the audit workpapers or relevant information from the audit workpapers to support the adjustment and the related analysis performed by the proper authoritative source. In addition, the journal voucher must document why the adjustment is required and how the proper authoritative source determined that the entries included on the journal voucher are correct.

7. Customer-requested journal vouchers. When the duly authorized official receives a customer-requested adjustment that is fully supported and complies with the DoD FMR, a correcting journal voucher must be prepared. Evidence to support this type of adjustment includes supporting documentation provided by the customer's duly authorized official. Evidence also includes any related analysis performed by the duly authorized official to ascertain that the adjustment is fully supported and complies with the DoD FMR. In addition, the journal voucher must document why the adjustment is required and how the duly authorized official determined that the entries included on the journal voucher are correct.

Sufficient documentation is listed below for the following source-entry journal vouchers:

8. Data call entry. Frequently, during the financial statement preparation process, source-entry information is provided by data calls where the data are not recorded on a detailed transaction basis. Thus, journal vouchers must be prepared to record the summarized data call amounts, so these amounts can be recorded in the general ledger trial balance.

Data call information, in most cases, is provided by an independent source². Evidence to support the journal voucher includes the transmission record of these data in conjunction with a determination by an independent source that the source data are valid.

Examples of data call entries include:

- Property, Plant, and Equipment.
- Inventory and Operating Materials and Supplies
- Environmental Liabilities
- Contingent Liabilities
- Employee Benefit data, Workers Compensation (FECA) data, and other information from other federal sources

² Examples of an independent source include the DoD Actuary, logistics data calls, environmental data calls, and accrual information from the Department of Labor and the Office of Personnel Management.

9. Recognition of undistributed disbursements and collections. The effects of undistributed disbursements and collections must be recognized in the accounting records and the financial statements³. Entries must be made to adjust Fund Balance with Treasury, as reported, for the amount of undistributed disbursements and collections reported in the departmental expenditure system. Corresponding entries also must be made to account for undistributed disbursements and collections in accounts payable and accounts receivable. These entries represent DoD's in-float disbursements and collections for transactions that have been reported by a disbursing station but not recorded by the appropriate accountable station. The proper supporting documentation for the journal voucher consists of identifiable amounts that are in-transit from other sources (such as other DFAS Centers or federal agencies). Many amounts at the detailed transaction level are not available due to timing differences, and support consists solely of transmitted sums. Therefore, evidence available to support the journal voucher adjustments consists of summarized transmittal amounts. However, for audit trail purposes, the detailed transaction-level amounts shall be obtained from the transmittal source when the amounts become available. Further evidence includes documentation of procedures and the allocation process used to apply undistributed disbursements and collections to accounts payable and accounts receivable, respectively.
10. Other accruals and reversals. A number of typical month-end and year-end adjusting entries are made, and subsequently may be reversed at the beginning of the next period, to accrue amounts for payroll, workers compensation, judgement fund liabilities, unfunded leave, and other transactions. In addition, other accruals are made for expenses and accounts payable for the Mechanization of Contract Administration Services unpaid and paid liabilities, interfund, and/or payroll disbursements. The supporting documentation for these types of journal vouchers must include a narrative explaining the basis for the original accrual and any subsequent reversal. The journal voucher for the reversing entry also should include documentation regarding the original accrual entry.

A journal voucher that is rejected for inadequate or improper supporting documentation will be returned to the person who submitted the journal voucher request. The approving official will provide an explanation as to why the journal voucher was rejected, information required to obtain approval, and applicable authoritative guidance.

Approval of the journal voucher also constitutes acceptance of the supporting documentation. The following thresholds determine who is the proper approving official.

<u>Threshold</u>	<u>Dollar Amount</u>	<u>Approving Official</u>
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³ The DoD Financial Management Regulation Volume 4 states that these amounts to be offset by reducing accounts payable and accounts receivable, respectively.

1	Under \$100 Million	Team Leaders, General Fund or Working Capital Fund Reporting Branch
2	\$100 - \$500 Million	Chief, Procedures and Reporting, Office of Chief Financial Officer
3	\$500 Million - \$1 Billion	Entity Director for Accounting
4	Over \$1 Billion	Entity Director

In addition, all journal vouchers over \$1 billion will be communicated to the customer and the auditors⁴.

Managerial internal controls are provided at each level of management at the DoD entities to ensure proper oversight of journal voucher preparation. Managerial internal controls shall at least entail the following.

1. Within 10 work days after the financial statements are prepared, the entity's Director for Accounting, or whoever is acting on his/her behalf, shall review all journal vouchers to determine if approval thresholds were met, and if not, obtain approvals.
2. Within 10 work days after the financial statements are prepared, the entity's Director for Accounting shall review a selected sample of journal vouchers under \$500 million to determine if supporting documentation is present and adequate. If adequate supporting documentation is not present, the journal voucher should be returned to the preparer so that adequate documentation can be obtained.
3. The entity's Director for Accounting shall review a selected sample of reversing journal voucher entries under \$500 million to determine if they are correctly prepared, documented, reviewed, processed, and approved.
4. The entity's internal review office shall include journal voucher processing in the annual internal control management review process.

⁴ The journal vouchers may be processed without final coordination from the customer and the auditors due to time constraints. In this situation, the final coordination should be obtained after the fact. Issues raised during the coordination process shall be addressed in the next version of the statements.